

Message Text

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PAGE 01 CAIRO 11228 201759Z

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 IO-13 /071 W

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R 201526Z AUG 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 6260

C O N F I D E N T I A L CAIRO 11228

E.O. 11652: GDS

TAGS: EFIN, ECON, EG, US

SUBJECT: MINISTER OF FINANCE COMMENTS ON IMF RECOVERY PROGRAM
FOR EGYPT, SHORT TERM PROSPECTS

1. DURING MEETING WITH MINISTER OF FINANCE ABU ISMAIL ON AUGUST 19, OMB REP SANDERS OBSERVED INTER ALIA THAT IMF SEEMED TO BE UNDERSTANDING OF EGYPT'S PROBELMS. ABU ISMAIL QUITE VISIBLY DISAGREED. HE SAID HE HAD TOLD IMF IN JANUARY (1976) THAT MEASURES IT WAS REQUESTING WERE NOT POSSIBLE POLITICALLY UNTIL AFTER OCTOBER ELECTIONS. DESPITE THIS, IMF HAD PUSHED REFORMS. GOE HAD IMPLEMENTED FOUR OR FIVE OF TEN POINTS OF PROGRAM BUT COULD NOT GO ANY FURTHER AT THIS TIME WITHOUT HURTING GOVERNMENT IN ELECTIONS. HE SAID LEFTISTS WERE ALREADY CRITICIZING GOVERNMENT FOR STEPS IT HAS TAKEN, WHICH HAVE RESULTED IN SLIGHTLY HIGER PRICES FOR SOME COMMODITIES. ABU ISMAIL STRESSED THAT THESE ARE TO BE FIRST FREE ELECTIONS IN EGYPT IN MANY YEARS AND GOVERNMENT CANNOT PUT ITSELF AT DELIBERATE DISADVANTAGE; THIS POINT WAS FURTHER EMPHASIZED DURING MEETING WITH UNDER-SECRETARY ABU RIZK AND OTHER MINFIN STAFFERS.

2. ABU ISMAIL SAID THAT MOST IMPORTANT ITEM FOR
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PAGE 02 CAIRO 11228 201759Z

EGYPT'S SHORT-TERM STABILITY IS PRICE OF WHEAT,

WHICH HAS BEEN RISING RECENTLY. HE SAID THAT BECUASE OF LOWER COMMODITY PRICES (PARTICULARLY WHEAT, 1976 IMPORT BILL WOULD BE LE 300 MILLION LOWER THAN 1975 (THIS IS FOR COMMODITY IMPORTS ONLY AND NOT OVERALL FOREIGN EXCHANGE EXPENDITURE WHICH WILL BE HIGHER THAN LAST YEAR'S). IF PRICES RISE AGAIN IN SECOND HALF 1976 AND IN 1977 SITUATION WILL BE VERY SERIOUS. NEXT 18 MONTHS WILL BE VERY DIFFICULT, HE SAID, AND ONLY WAY EGYPT CAN SURVIVE IS WITH OUTSIDE HELP. AFTER 1977, ECONOMY WILL BEGIN TO BRING ITSELF INTO EQUILIBRIUM, ALTHOUGH HE DID NOT SAY HOW THIS WOULD BE ACCOMPLISHED.

3. IN FOLLOWING MEETING WITH MINFIN STAFF, OFFICIALS SAID THAT AMERICAN LONG-TERM QUARANTEE OF LARGE WHEAT SUPPLY WOULD BE MOST HELPFUL CONTRIBUTION U.S. COULD PROVIDE IN HELPING TO ASSURE EGYPTIAN ECONOMIC PROBLEMS SOLVED.

FYI: DETAILED COMMENTS ON EGYPTIAN SUBSIDY PROGRAM FOLLOW SEPTTEL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC STABILITY, ECONOMIC PROGRAMS, GOVERNMENT REACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CAIRO11228
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760320-0978
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760835/aaaabeen.tel
Line Count: 83
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUN 2004 by BoyleJA>; APPROVED <13 OCT 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MINISTER OF FINANCE COMMENTS ON IMF RECOVERY PROGRAM FOR EGYPT, SHORT TERM PROSPECTS
TAGS: EFIN, ECON, EG, US, IMF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006